

ORIGINAL



0000096942



**Sulphur Springs Valley  
Electric Cooperative, Inc.**

311 East Wilcox Drive  
Suite 203  
Sierra Vista, Arizona 85635  
(520) 458-4691  
Fax (520) 458-6860

RECEIVED

2009 MAY 14 A 9:57

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

May 13, 2009

Arizona Corporation Commission  
**DOCKETED**

MAY 14 2009

**HAND DELIVERED**

Commissioner Bob Stump  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007-2596

DOCKETED BY	<i>MS</i>
-------------	-----------

*Re: April 23, 2009 Letter Regarding Extension Policy  
Docket No. E-01575A-08-0328*

Dear Commissioner Stump:

Pursuant to your April 23, 2009, letter to Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") in the above-referenced docket, SSVEC hereby provides the following information in response:

1. What cost would consumers incur if the Commission were to re-instate the 1,000-foot free-line extension?

SSVEC has never had a 1,000-foot free-line extension policy. Up until 2001, our line extension policy provided for 500 feet or 2 free spans on residential customers. In today's market, SSVEC could be subsidizing up to \$8000 for each primary line extension under those free distance rules. Consumers would pay anything over that amount, depending on the cost of the extension. Our current policy provides a flat credit of \$1,750 for residential line extensions. In our current rate case, SSVEC has proposed, and Staff has agreed, that the \$1,750 credit be eliminated.

2. Should there be a cap on the amount a utility can charge the development for the extension?

As a cooperative, SSVEC needs to recover the construction costs on new developments. These costs can vary significantly depending on the size of the lot and design, which are determined by the developer. Since it is the developer that causes the costs to be incurred, and benefits financially from the construction, SSVEC believes that they should bear all of the costs. If there were a cap on the amount the developers had to pay, all ratepayers would be subsidizing the developers by paying the excess.

3. If a utility were to put in a line extension, is there a benefit to all users in that extension area, including the utility and its customers?

All line extensions are different. Type of customer, length of extension, location, density of service, load, anticipated growth, and cost are factors that vary depending on each particular situation. Therefore, the answer is no. A benefit is not necessarily provided to all users in that extension area. If the primary extension is situated where other parties could tap off it, there would be a benefit to those attaching later. In some situations, such as the replacement of an old pole that supports our electrical system, our existing facilities need to be upgraded in order to accommodate the line extension. In these situations, the cost of replacing the pole would not be billed to the line extension but would be accounted for as a system improvement.

4. If a developer were to put in the extension, would the developer be subsidizing all development which occurs later?

Yes, if the developer pays 100% of the line extension, the developer would be subsidizing future development of that particular development or subdivision to some extent. SSVEC would only build the infrastructure to support the proposed development. The current situation is that the ratepayers subsidize the developer as SSVEC only collects a share of the costs as refundable aid to construction and returns these funds to the developer as new homes are connected over a period of time, usually 5 years.

5. What policies, if any, could be put into place to re-pay the initial developer for the 1,000-foot free-line extension?

SSVEC does not and has never offered 1,000-foot free line extensions. Our current policy provides for a \$1,750 credit for residential line extensions. Under our existing aid to construction contracts with developers, refunds are provided when new homes are connected to the grid. If the Commission requires SSVEC to repay the developer

for some amount, we would develop a method where the free distance is recovered through a subsidy in the line extension policy.

6. What is the average cost to a developer to put in the line extension?

The following table shows the costs to developers under our current and proposed line extension policies.

	Cost to Developer	Cost to Other Members	Total Cost
Existing Policy	\$22,079	\$136,613	\$158,692
Proposed Policy	\$158,692	\$ 0	\$158,692

7. What is the average cost to an individual homeowner to put in the line extension?

The following is the average cost to an individual under our current and proposed line extension policy.

	Cost to Homeowner	Cost to Other Members	Total Cost
Existing Policy	3,448	12,437	\$15,885
Proposed Policy	\$15,885	\$ 0	\$15,885

It should be noted that during SSVEC' last debt financing proceeding before the Commission in November 2007 that resulted in Decision 70032, there was a discussion at the Open Meeting of "growth paying for growth." While the specific discussion related to hook up fees, the same principles seemed to apply to line extensions as well. Some of the Commissioners strongly suggested that we incorporate a policy of growth paying for growth into our next rate case. Accordingly, this is what we have incorporated into our

Commissioner Bob Stump  
Arizona Corporation Commission  
Page 4

---

proposed service conditions, and we understand that other Arizona electric utilities have already done this at the urging of the Commission.

Respectfully,



Kirby Chapman  
Chief Financial Officer

cc: Docket Control (Original plus 13 copies)  
Chairman Kristin K. Mayes  
Commissioner Gary Pierce  
Commissioner Sandra D. Kennedy  
Commissioner Paul Newman  
Ernest Johnson  
Lyn Farmer  
Jane Rodda (mailed)  
Mike Kearns  
Rebecca Wilder  
Creden Huber  
Bradley S. Carroll  
Wesley C. Van Cleve  
Kevin Torrey

10047898.1